

Message Text

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ACTION NEA-10

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E.O. 11652: N/A
TAGS: EFIN
SUBJ: FURTHER ON EGYPT'S "OPEN" MONEY MARKET

REF: CAIRO 1140

1. ADDITIONAL DISCUSSIONS WITH LOCAL BANKERS GIVE US MORE INSIGHT INTO OPEN MONEY MARKET MECHANISM, WHICH ACCORDING TO DIRECTORS OF LOCAL FOREIGN CURRENCY AND JOINT VENTURE BANKS, OFTEN OPERATES COMPLETELY OUTSIDE NORMAL BANKING CHANNELS (SEE REFTTEL).

2. IN RECENT EXPERIENCE, AS MARGIN BETWEEN PARALLEL AND OPEN MARKET EXCHANGE RATE WIDENS, FEWER AND FEWER TRANSACTIONS ARE CARRIED OUT BY BANKS. PURCHASERS OF HARD CURRENCY ARE FORCED TO DEAL INFORMALLY WITH MONEY VENDORS. AS DIFFERENCE IN RATE APPROACHES 4-5 PIASTERS OVER PARALLEL MARKET RATE, OPEN MARKET DOLLAR LIQUIDITY INCREASES. (INFORMED SOURCES IN BOTH GOE AND BANKING COMMUNITY ESTIMATE THAT DEPTH OF MARKET APPROACHES ONE BILLION DOLLARS WHEN MARGIN IS AT LIMIT.)

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3. EFFECT OF ABOVE IS TO CONSTRICT SEVERELY OFFICIALLY-SANCTIONED PARALLEL MARKET LIQUIDITY IN BOTH DOLLARS AND EGYPTIAN POUNDS AT CERTAIN PERIODS OF YEAR, MOST NOTABLY BETWEEN END OF RAMADAN AND ISLAMIC NEW YEAR WHEN TRAVEL ABROAD INCREASES AND WITH IT DEMAND FOR HARD CURRENCY. TO COMPENSATE FOR LATTER PHENOMENON, RESIDENT FOREIGN BANKS ARE BORROWING POUNDS FROM EGYPTIAN CENTRAL BANK AGAINST

DEVELOPMENT BOND HOLDINGS PURCHASED LAST FALL.

4. DOLLAR LIQUIDITY PRESENTS GREATER PROBLEM, AS NOTED REFTEL, AND AT PRESENT BANKERS HAVE NO OPTION EXCEPT TO AWAIT SEASONAL ADJUSTMENT OF MARGIN BETWEEN EXCHANGE RATES. INCREASING AMOUNTS OF DOLLARS FLOW BACK INTO BANKING CHANNELS AS MARGIN NARROWS.

5. GOE IS AWARE OF PROBLEM BUT HAS HESITATED TO INSTITUTE EXCHANGE CONTROLS, WHICH BANKERS ARE STRONGLY ADVOCATING. ECONOMIC OFFICIALS REPORTEDLY SEE SUCH ACTION AS CONTRARY TO LIBERALIZATION POLICIES PRESENTLY PURSUED BY GOVERNMENT. SUGGESTION THAT CENTRAL BANK BRING PARALLEL AND OPEN MARKET RATES INTO LINE THROUGH MINOR DEVALUATION HAS ALSO MET WITH RESISTANCE ON PSYCHOLOGICAL GROUNDS. MOST FOREIGN BANKERS ARE VOICING CONCERN THAT CONTINUED OPERATION OF MULTIPLE EXCHANGE RATE POLICY CAN ONLY HINDER PRIVATE FOREIGN INVESTMENT AS FEW COMPANIES (PARTICULARLY U.S.-BASED OPERATIONS) HAVE MUCH INTEREST IN EXTRA-LEGAL TRANSACTIONS THAT ARE, ACCORDING OUR OWN INFORMATION, ALMOST SOP IN EGYPT DURING CERTAIN PERIODS OF YEAR. EILTS

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